BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001



POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
UNITED PARCEL SERVICE WITNESS NEELS
(USPS/UPS–T1—38–44)

Pursuant to rules 25 through 27 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to United Parcel Service witness Neels:

USPS/UPS–T1—38–44.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/UPS-T1-38. Please refer to your testimony at page 48, line 4, to page 52, line 13, where you address Mr. Degen's argument that the existence of setup and takedown costs explains, in part, less than 100 percent volume-variability factors. On page 48, lines 5-8, you state that "Over at least some range of volumes, Mr. Degen is almost certainly correct. For small increases in volume, these costs will remain fixed and with growth they will be amortized over ever larger volumes, giving the result that such operations will exhibit economies of scale." With Figure 8, on page 51, you depict "a situation in which costs increase in a stepwise fashion in direct proportion to volume."

a. Please confirm that, for the purposes of discussing Figure 8, it is possible to define "volume" as piece handlings (TPH or TPF)—i.e., the need to perform more piece handlings could result in "replication of a mail processing operation" and thus the "cost-volume" pattern you depict in Figure 8. If you do not confirm, please explain.

b. Please explain whether you believe the "range of volumes" within which setup and takedown costs "will remain fixed" is larger or smaller than the range of TPH or TPF volumes in Dr. Bozzo's dataset. Please provide and describe fully any quantitative evidence you use to support your statement.

c. Please explain whether you believe Dr. Bozzo's models incorporate any constraint or other feature that would prevent the results from indicating 100 percent (or greater) variability of MODS pool costs with respect to piece handlings if your depiction in Figure 8 were correct. If you believe that there are such constraint(s) or other feature(s), please describe each one, provide

detailed citations to the portion(s) of LR-I-107 that show its implementation, and demonstrate mathematically how it would prevent Dr. Bozzo's results from indicating 100 percent (or greater) variability of MODS pool costs with respect to piece handlings if your depiction in Figure 8 were correct.

d. Please explain whether you believe the "range of volumes" within which setup and takedown costs "will remain fixed" is larger or smaller than the range of volumes likely to result from projected volume changes between FY 1998 (the base year) and FY 2001 (the test year). Please provide and describe fully any quantitative evidence you use to support your statement.

USPS/UPS-T1-39. Please refer to your testimony, UPS-T-1, from page 52, line 16, to page 53, line 11, where you discuss what you characterize as the "implicit assumption that incremental volume growth occurs in the shoulders of the peak." You state, "There is no evidence to suggest that in fact, incremental volume growth would occur only in the shoulders of the peak."

a. Please provide a detailed citation to the portion of Mr. Degen's testimony that states the assumption that "incremental volume growth would only occur in the shoulders of the peak." If you claim that your statement is not made explicitly but is a clear implication of Mr. Degen's testimony, please reconcile your interpretation with the qualifications he includes in his testimonysuch as those that you quote at lines 1-2 of page 53.

b. Does your statement at lines 7-8 that, "If all volumes grow proportionately... one would expect staffing levels to grow proportionately in response" implicitly

assume constant returns to "scale" (or size, density, etc., as appropriate)? That is, would it be more accurate to say "If all volumes grow proportionately... one would expect staffing levels to grow proportionately in response if there are constant returns to scale"? Please explain any negative answer.

c. Do you contend that some types of volume growth (e.g., growth in deferrable "non-pref" volumes) cannot be handled in off-peak periods? If so, please explain fully the basis for your contention?

USPS/UPS-T1-40. Please refer to your testimony, UPS-T-1, at page 53, lines 19-20. You state, "The need to make full use of downstream processing capacity implies that gateway staffing levels are in fact volume driven."

a. Does "volume driven" necessarily imply 100 percent volume-variability (i.e., is it necessary that there also be constant returns to "scale" for "volume driven" to imply "100 percent volume-variability)? Please explain fully any affirmative answer.

b. Do you contend that Mr. Degen describes gateway operations as non-volume-variable, or just less than 100 percent volume-variable? If you contend that Mr. Degen describes gateway operations as non-volume-variable, please reconcile your contention with Mr. Degen's testimony, at page 38, lines 11-13 of USPS-T-16, that "The overall volume-variability of the cancellation operation will tend to be less than 100 percent because of its role

as a gateway with varying vehicle arrival times and volumes of collection mail that cannot be forecast with certainty."

c. Please confirm that your shapes-level analysis of Dr. Bozzo's data relates, among other things, hours in upstream gateway operations such as OCR, to volumes in downstream sorting operations that process letter mail. If you do not confirm, please explain fully.

USPS/UPS-T1-41. Please refer to your testimony at page 72, lines 19-21. You state, "If an analysis is conducted at the plant level, it should account explicitly for the effects of changes in the network that alter the number, configuration or operating characteristics of plants."

a. Please confirm that the "pool total costs" for MODS cost pools reported in Table 1 of witness Van-Ty-Smith's testimony, USPS-T-17, reflect the costs for all facilities that have the corresponding mail processing operations in place. If you do not confirm, please explain fully.

b. Please confirm that any net expansion or contraction of a MODS operation between (say) FY 1998 and FY 1999 will be reflected in the difference between the FY 1998 and FY 1999 "pool total costs" as computed by witness Van-Ty-Smith. If you do not confirm, please explain.

c. Please confirm that, holding the volume-variability factors constant, the "pool volume-variable costs" as computed by witness Van-Ty-Smith (or witness Sellick in UPS-T-2) will change between (say) FY 1998 and FY 1999 by the

same proportion as the "pool total costs" change. That is, for a constant cost elasticity or volume-variability factor $\varepsilon$:

$$\Delta VC_i / VC_i^{98} = (\varepsilon_i C_i^{99} - \varepsilon_i C_i^{98}) / \varepsilon_i C_i^{98} = (C_i^{99} - C_i^{98}) / C_i^{98} = \Delta C_i / C_i^{98}$$

If you do not confirm, please explain.

d. Please confirm that the Postal Service's rollforward model accounts for, among other things, the effects on the Postal Service's future costs of planned deployments of capital equipment between the base year and test year. If you do not confirm, please explain your understanding of how the rollforward model treats planned deployments of capital equipment.

USPS/UPS-T1-42. Please refer to your testimony at page 72, lines 9-10. Please confirm that, as a matter of economic theory, the "correct result" could be variabilities greater than, less than, or equal to 100 percent, depending on the degree of economies of "scale" (or size, density, etc., as appropriate) actually exhibited by mail processing operations.

USPS/UPS-T1-43. Please refer to your discussion of your "shapes level" variability analysis at pages 57-59 of UPS-T-1, and the econometric results you present in Appendix F.

a. Please provide, using the method you describe at page 40 of UPS-T-1, a table of the marginal cost implied by your "letters" model for a BCS piece handling (TPH or TPF, as appropriate), an OCR piece handling, an LSM

piece handling, and a manual letter piece handling. Please also provide the table in Excel spreadsheet format.

b. Please provide, using the method you describe at page 40 of UPS-T-1, a table of the marginal cost implied by your "flats" model for an FSM piece handling (TPH or TPF, as appropriate) and a manual flat piece handling. Please also provide the table in Excel spreadsheet format.

c. Please provide, using the method you describe at page 40 of UPS-T-1, a table of the marginal cost implied by your "parcels" model for a SPBS piece handling (TPH or TPF, as appropriate) and a manual parcel piece handling. Please also provide the table in Excel spreadsheet format.

d. Please confirm that your "parcels" group excludes the manual Priority Mail cost pool. If you do not confirm, please explain.

USPS/UPS-T1-44. Please refer to your testimony, UPS-T-1, at page 30, lines 17-22, where you discuss the use of cubic foot-miles as the "cost driver" for purchased highway transportation.

a. Is it your opinion that cubic foot-miles is an appropriate choice of cost driver for purchased highway transportation? If not, please explain.

b. Please refer to your statement, "To measure the contribution of a particular subclass to purchased highway transportation costs, all one need know is the number of cubic foot miles." Does the quoted statement indicate your beliefs regarding the appropriate method to develop volume-variable cost by subclass for purchased highway transportation? If not, please explain.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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